



TITLE:

THE FORMATION OF MICRO MARKETING THEORY

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CITATION:

Hashimoto, Isao. THE FORMATION OF MICRO MARKETING THEORY.
Kyoto University Economic Review 1974, 44(1-2): 1-18

ISSUE DATE:

1974-10

URL:

<https://doi.org/10.11179/ker1926.44.1>

RIGHT:

THE KYOTO UNIVERSITY ECONOMIC REVIEW

MEMOIRS OF THE FACULTY OF ECONOMICS
IN THE KYOTO UNIVERSITY

Vol. XLIV, No. 1-2

APRIL-OCTOBER 1974

Whole No. 96-97

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PUBLISHED BY

THE FACULTY OF ECONOMICS, KYOTO UNIVERSITY

SAKYO-KU, KYOTO, JAPAN

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THE KYOTO UNIVERSITY

VOLUME XLIV NUMBER 1-2 (APRIL-OCTOBER 1974) WHOLE NUMBER 96-97

THE FORMATION OF MICRO MARKETING THEORY

By Isao HASHIMOTO*

I Presentation of Problem

What is the micro marketing theory? When, and by whom was it first established?

In order to consider this question, we have made available two analytical viewpoints. The first point concerns the foundation of theoretical framework of micro marketing and it leads us to the formal formation of the theory itself. The second point is related to coming marketing as practical technique, which is the substantial formation of the theory.

With regard to the first analysis, the question to be asked is the time and circumstances under which the framework of theory came into being. In order to demonstrate coming into existence of the micro marketing theory, there are two questions to be answered: what is actually meant by the term "micro marketing theory"? And what is the basis of existence of such a theory?

As is well known, the micro marketing theory was not the main current of marketing theory was a whole prior to the Second World War. Rather, the stress was placed on the socio-economic marketing theory. It is only after the end of the last World War that micro marketing became the main current of marketing theory—

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especially from the latter half of 1950's to 1960's florescent and consummation of the micro marketing can be seen in the managerial marketing theory. Thus, the second question concerning the basis of micro marketing has to be considered necessarily in relation to the managerial marketing theory. In other words, micro marketing theory can definitely be said to have come into existence when theoretical framework of managerial marketing was born, i.e., when theoretical prototype of the latter was established¹⁾.

Then, who established for the first time such prototype? Obviously, we can resolve this question empirically, by comparing and analyzing numerous marketing theories known to us. However, in reality, there is an unquestionable superstar in marketing theory, whose work did in fact gave rise to all of the latter theories. The man is Arch W. Shaw, "the father of marketing" and "Adam Smith of Marketing Theory", who wrote the classical work "Some Problems in Market Distribution" in 1915. In the present article, we will consider why Shaw's work can be said to give rise to micro marketing theory, by looking into his work to see if and how the prototype of micro marketing theory can be found there.

With regard to the second problem, the question to be asked would be the circumstances under which micro marketing was formulated and developed as technique of capitalist praxis. Sales management and marketing management constitute the core of such praxis, although sales management requires the existence of salesmanship because the management cannot exist without people, their guidance, training and control. In fact, discussions concerning salesmanship appeared prior to sales management. The core of technique in capitalist praxis, as we see it, contains salesmanship and advertising. Those two techniques were important from the very early stage of the capitalist praxis, and there has been an enormous volume of textbooks and researches concerning these two subjects. In another work, we shall consider the process of coming into existence of advertising theories as a means of clarification of its essence.

In reality, the salesmanship and advertising developed independently without any significant inter-relationship between themselves. However, their co-existence was crucial to give rise to the theory of marketing management, in conjunction with the development of the key technique, i.e., marketing research and its theoretical elaboration. In the history of marketing, marketing research is slightly posterior to the development of salesmanship and advertising, however.

Thus, we should not forget that marketing has been founded on those major pillars of technique in order to develop itself into marketing management. We shall

1) Isao Hashimoto, *The Formation of Marketing*, Minerva Shobo, 1975, chap. 7. Further more, a similar point of view is contained in "Zero-point of managerial marketing" by Yasuo Ito (*the Chukyo Shogaku Ronso*, Vol. 19, No. 1, June, 1972, p. 1.) which is coincidence of viewpoint. We should like to express our agreement and respect to Mr. Ito's idea. The same journal, in Vol. 17, No. 3, gives translation of the Shaw's monumental work, also done by Mr. Ito and Mr. H. Mizuno.

see how sales management and marketing management have become what they are in other work.

Now, let us have a look at the basic premises of Shaw's theory as the starting point of the formal groundwork of micro marketing, that is to say, to see why we consider Shaw's work is the foundation of the theory.

II Outline of Shaw's Work

In the past, A. W. Shaw was considered above all as the first founder of the theory on marketing functions. For instance, all of the representative marketing scholars in the prewar period such as L. D. H. Weld²⁾, F. E. Clark³⁾, and H. B. Vanderblue⁴⁾ gave a very high regard to Shaw's functional theory. His work was studied with interest even in prewar Japan by a number of scholars including Prof. Shotaro Takebayashi⁵⁾ and Prof. Keitaro Fukuda⁶⁾. Such an appreciation was inherited by the post-war generation which includes, among others, P. D. Converse⁷⁾, R. Bartels⁸⁾, G. Schwartz⁹⁾, E. A. Duddy and D. A. Revzan¹⁰⁾, Eugen Leitherer¹¹⁾ of Germany, Prof. Y. Arakawa¹²⁾, M. Miura¹³⁾, Y. Suzuki¹⁴⁾ and Y. Awaya¹⁵⁾ of Japan, who regard A. W. Shaw as the father of functional theory, representing the prevailing view of the academic world¹⁶⁾.

2) L. D. H. Weld, "Marketing Functions and Mercantile Organization", *American Economic Review*, Vol. VII, June 1917, p. 306.

3) F. E. Clark, *Principles of Marketing*, 1922, p. 11. (translat. by K. Ogata & T. Ogata, 1930, Ed. Maruzen, p. 150, Vol. 1)

4) Homer B. Vanderblue, "The Functional Approach to the Study of Marketing", *Journal of Political Economy*, Vol. XXXIX No. 8, Oct. 1921, p. 676.

5) Shotaro Takebayashi, "Development of Distribution Theory in USA", Osaka College of Commerce, "*Economic Journal*" Vol. 8, No. 4, April 1941, p. 77.

6) Keitaro Fukuda, "Development of Distribution Theory in USA", *National Economic Journal*, Vol. 47, No. 5, Nov. 1929, p. 85. Also his "Commerce and Business", *ibid.* Vol. 48, No. 1, Jan. 1929, p. 47, and *Marketing*, Chikura Shobo, 1930, p. 65.

7) P. D. Converse, *The Beginning of Marketing Thought in the United States*, 1959, p. 40, dittos, Development of Marketing Theory: Fifty Years of Progress, in H. G. Wales (ed.), *Changing Perspectives in Marketing*, 1951, p. 32.

8) R. Bartels, *The Development of Marketing Thought*, 1962, p. 160.

9) G. Schwartz, *Development of Marketing Theory*, 1963, p. 85.

10) E. A. Duddy and D. A. Revzan, *Marketing*, 1953, p. 21.

11) E. Leitherer, *Geschichte der handels-und-absatzwirtschaftlichen Literatur*, 1961, S. 110.

12) Yukichi Arakawa, *Marketing*, Chikura Shobo, 1960, p. 194.

13) Makoto Miura, "A Study of Shaw's Some Problems in Market Distribution", *Shogaku Ronkyu*, Vol. 1, p. 301.

14) Yasura Suzuki, '*Business Economics*', Ed. Senbundo, 1963, p. 42.

15) Yoshizumi Awaya, *Function of Marketing*, Ed. Nikkan Kogyo Shinbun, 1958, p. 7.

16) Other recent studies of interest are: —Fumio Kondo, "Development of Marketing Theory," Univ. of Kyoto, *Economic Journal*, Vol. 99, No. 3, Mar. 1967. —Masayuki Kamioka, "An Essay on Establishment of Marketing Functions", *Journal of Osaka College of Economics*, Vol. 71, Sept. 1969. —Katsuya Ono, "A study of Distribution Function", Meiji Univ., *Economic Journal*, Vol. 49, No. 6, Feb. 1966.

However, such a view does not give full justice to Shaw's work, because it takes only one side of his accomplishment—socio-economic marketing (macro-marketing). Since the post-war marketing theory is primarily concerned with micro marketing aspects, we believe that Shaw's work should be re-appraised from a modern point of view. In fact, there has been some research done in this perspective since several years. For instance, Mr. M. Miura¹⁷⁾ pointed out his theory's relation with scientific management, while Prof. Masao Kadomatsu and Fumio Kondo¹⁸⁾ studied its relevance to monopoly. Mr. Yasuo Ito¹⁹⁾, who tried to seek the starting point of managerial marketing theory through his pains taking translation of Shaw's work, represents such a shift in appreciation of A. W. Shaw²⁰⁾.

Before going to take up the main task of trying to establish Shaw's influence on micro marketing theory, let us first take a glimpse of his personality and his work as a whole.

Arch Wilkinson Shaw (1876-) was unique in that he was both a scholar and a businessman. During the first two decades of the century, he was managing, along with Amasa Walker, Shaw-Walker Company (office supplies) and Kellong Company. He used his spare hours to study office management system and talked with a number of business leaders. Shaw was also interested in writing and publishing. The "System"²¹⁾ business magazine, and another magazine, the "Factory" were published by Shaw, who founded a publication company of his own, but latter merged with McGraw-Hill Co.

Shaw, however, was an ardent scholar. In 1912, he was invited to Harvard by Edwin F. Gay, Dean of the Faculty of Commerce, and helped to reorganize curriculum of the same faculty until 1916. He taught at the same time business policy at Harvard. In addition, Shaw was a founder of Harvard Bureau of Business Research with the purpose of obtaining data and materials to be used for teaching business administration²²⁾.

Shaw's principal work are "Some Problems in Market Distribution" (1915) and "An approach to Business Problems" (1916). In addition, there are two major articles discussing application of F. W. Taylor's Scientific Management to marketing technique, namely, "Scientific Management in Business" and "Simplification: a Philosophy of Business Management" (Harvard Business Review, July, 1923)²³⁾.

17) cf. F. M. Miura, *op cit.*

18) Masao Kadomatsu, "A. W. Shaw and Problem of Commercial Elimination", *Journal of Kumamoto Col. of Economics*, Vol. 18, Feb. 1964. Also ref. Fumio Kondo, *op. cit.*

19) Yasuo Ito, "Zero-Point of Managerial Marketing", *Chukyo Shogaku Ronshu*, Vol. 19, No. 1, June 1972, p. 1.

20) Although this essay was published in 1972, it had actually been completed in 1963.

21) The magazine "System" is said to be the origin of the "Business Week" nowadays.

22) Arch Wilkinson Shaw, *An Approach to Business Problems*, 1916, p. iii, R. Bartels, *Development of Marketing Thought*, 1962, p. 234, P. D. Converse, *The Beginning of Marketing Thought in the United States*, 1959, p. 39. Masao Kadomatsu, *ibid.*, p. 6.

23) C. B. Thompson (ed.), *Scientific Management*, 1914, pp. 217, 225.

Of these, the most important for marketing theory is the first, "Some Problems in Market Distribution" (abbreviated as "Some Problems" in this article), which, after its re-publication in 1951, became a classic in marketing both in U.S.A. and in Japan.

This book consists of the four chapters as follows:

- (1) The Nature and Relation of Business Activities
- (2) Methods of Distribution
- (3) Problems of the Distributor
- (4) Considerations of the Market

Of these four chapters, there is a difference in character and content between (1) and the rest. The first chapter was newly supplemented in 1915, while the following three chapters had already been published in 1912 in the "Quarterly Journal of Economics" (Aug. 1912). The first chapter is the most important for micro marketing. This epoch-making research was preceded in 1914 by his treatise, "Scientific Management in Business", which led to "the Nature and Relation of Business Activities" and then to "An Approach to Business Problems", a major work published in 1916, but whose essence can be seen in the "Some Problems"

How is the micro-marketing theory treated in the book? Shaw, naturally, did not make clear distinction of micro and macro marketing, although he had enough logical foresight to recognize their methodological difference. He wrote:

"The economist having the social viewpoint, the businessman that of the individual engaged in conducting an enterprise for profit"²⁴⁾... Although such a distinction does not make an integral part of his theory, the first two chapters discussed micro marketing problems, whereas the latter two chapters concentrated to socio-economic problems such as distribution channels and middleman. The micro-marketing theory is shown in the opening chapter, "the basic philosophy of business"²⁵⁾, while the following parts "illustrates the application of this philosophy to problems of distribution".

Now let us take a look at his marketing theory. Shaw stated that motion is the essential factor common to all business. According to him, business activities consist of various motions, which makes it possible to classify such activities according to the "purpose of motion"²⁶⁾ or function. Such a system of functions can be illustrated by a simplified schema as shown below (Table 1)²⁷⁾.

Shaw classifies business activities to three groups of activities of production, those of distribution, activities of administration or those of facilitating, of which the second group, or distribution, is what he is primarily concerned with. The distribution activities can be divided into activities of demand creation and activities of physical

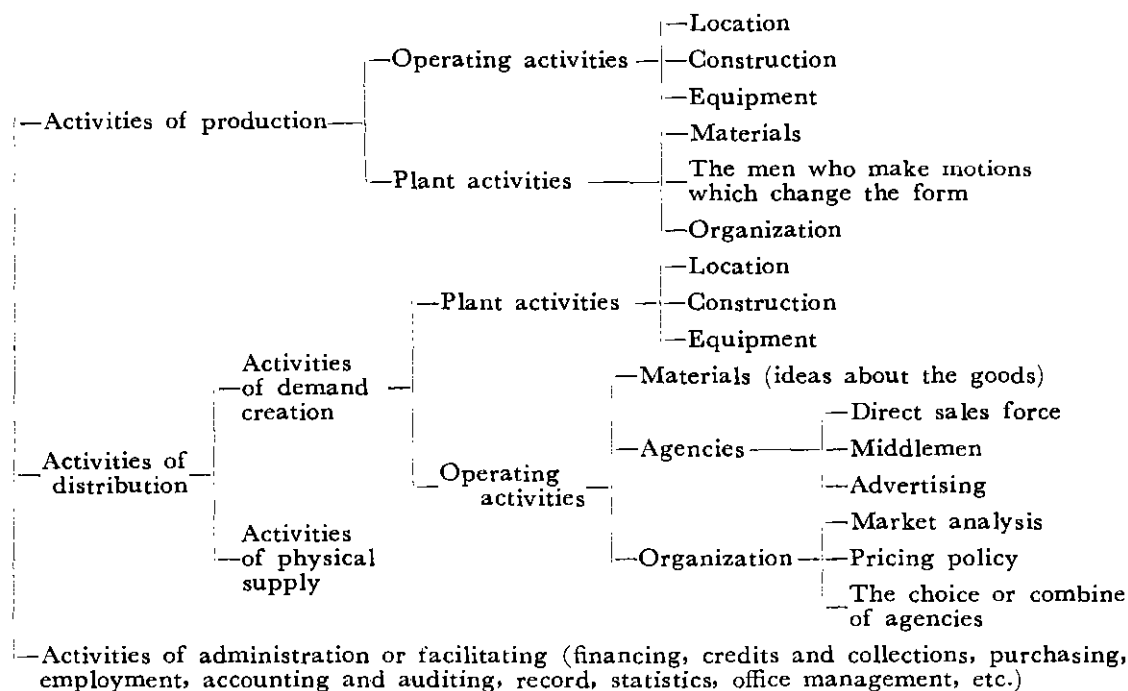
24) A. W. Shaw, *Some Problems*. p. 8.

25) *Ibid*, foreword cf. P. D. Converse, *The Beginning of Marketing Thought in the United States*, 1959, p. 39.

26) Shaw, *Some Problems*. p. 5.

27) *Ibid*, pp. 8~12.

Table 1. System of a Business Activities in A. W. Shaw.



supply, and each of those two subgroups consist of plant activities and operating activities. The plant activities are those such as location, construction and installation which become fixed once policies of enterprise is established, while the operating activities involve various new problems from day to day²⁸⁾. Consequently, what is important in the marketing activities are those which are operational. The operational activities in turn consist of three factors which are the "materials" or the medium to represent idea of commodity, the "agencies" or the organs through which such idea are transmitted to consumers, and lastly, the "organizations"²⁹⁾. We shall discuss the latter two factors in detail in the following chapters.

This system, as already said, is used and developed further in his "an Approach to Business Problems" of 1916. In this work, "production activities" are treated in part 1, problems of production, "distribution activities" in part 2, problems of distribution, and "facilitating activities" in part 3, administrative problems. The last part discusses "external problems of business"³⁰⁾. This work devotes more attention to

28) *Ibid.*, p. 12.

29) As for the theory of classification, refer to F. Kondo, "Development of Marketing Theory", Univ. of Kyoto, *Economic Journal*, Vol. 99, No. 3. March 1967, pp. 66~68.

30) In the "Exterior Problems of Business", the author pointed out those related to (i) customers and prospective customers, (ii) competitors, and (iii) labor market, without however going into further analysis. He said that (i) public opinion, (ii) legislations and (iii) government were the important factors to be considered in policy decision. Of those, the first point is of interest as the embryo of environmental theories later developed by Howard (cf. J. A. Howard, *Marketing Management*, 1963, p. 55 ff.)

micro viewpoint when compared with the preceding one.

What was Shaw's intention in developing such a system? Firstly, he wanted to make use of "scientific methods"³¹⁾ or "scientific research methodes"³²⁾ in marketing analysis. We stated that "the era of rule-of-thumb" had gone, and "systematic study"³³⁾ must replace experiences and empirical rules. "The most pressing problem of the bussiness man today", he wrote, "therefore, is systematically to study distribution, as production is being studied"³⁴⁾. He must "introduce the laboratory point of view"³⁵⁾³⁶⁾. Such emphasis on "scientific methods" and "laboratory point-of-view" means, as Mr. M. Miura pointed out³⁷⁾, the scientific management method already advocated by F. W. Taylor, as applied to marketing³⁸⁾.

Then, by using the "scientific methods", Shaw intended in short to realize "elimination of waste" (ref. "Some Problems"), as "lost motion" in business activity³⁹⁾ and social waste in general⁴⁰⁾. In other words, capitalistic rationalization of business behavior and distribution process was what he meant by "elimination of waste".

III Examination on Establishment of Micro Marketing Theory—Shaw's Theory on Behavior

We now have come to the main subject of this essay which is to study, as was referred to in the opening part, the ground on which Shaw's theory could be said the origin of micro marketing theory. In other words, we are to examine whether the prototype of managerial marketing theory, which is the today's model of micro marketing theory, is existing effectively in Shaw's theory, and if it does, how and where.

In order to examine the prototype of managerial marketing theory, we shall distinguish two aspects of examination. The first aspect is establishment of the viewpoint that the managerial marketing theory, unlike the socio-economic theory, is for business behavior. In other words, this aspect concerns existence of basic concept of managerial marketing theory. The second aspect is confirmation of the existence of viewpoint that the managerial marketing theory is above all a theory of behavior for monopolistic enterprises not the theory of mere enterprises in general.

Let us consider then if the basic concept of managerial marketing was effectively

31) A. W. Shaw, *Some Problems*. p. 107, p. 108.

32) *Ibid.*, p. 98.

33) *Ibid.*, p. 41, p. 98.

34) *Ibid.*, p. 44.

35) *Ibid.*, p. 44.

36) cf. F. Kondo, *op. cit.*, p. 64.

37) M. Miura, *op. cit.*, p. 289.

38) C. B. Thompson (ed.), *Scientific Management*, 1914, pp. 217, 225. As for Taylor's influence, ref. E. E. Hunt (ed.), *Scientific Management Since Taylor*, 1924, p. 5ff.

39) A. W. Shaw, *Some Problems*. p. 44.

40) *Ibid.*, p. 97, p. 100.

in existence in Shaw's work.

(1) Our first discovery is that Shaw stated basic function of marketing was creation of demand. Such definition of the basic function of marketing is not necessarily of primary importance even for the modern managerial marketing theory⁴¹⁾. However, today's theories have all in common an understanding that marketing is a behavior of business to create demand, rather than as a process or system of socio-economic viewpoint, which was the prewar socio-economic marketing theory. The prewar marketing theories were predominantly socio-economic and such an understanding was hardly noticeable. According to Shaw's "Some Problems", the first is "to arouse the maximum demand, and the second to supply that demand with a minimum leakage"⁴²⁾. Corresponding to these needs, there are two types of distribution activities to an enterprise: those for creation of demand, and those for supplying material goods. The first type of activity, according to Shaw's fine expression, is "a more intensive cultivation of existing markets"⁴³⁾. Such a definition is an extremely interesting one amid the entire wealth of prewar marketing literatures.

Such a duality of Shaw's distribution theory has a very important meaning also in the definition of distribution process. The distribution process has two characters: realization process of value, and that of use value⁴⁴⁾, of primary importance. In order for an enterprise to realize these values, it needs the activities to create demands, and to cultivate intensely the existing market. Shaw's term of activities to supply material goods could be understood as realization process of use value from the enterprise point of view. This limits his theory to the viewpoint of individual capitalist, in that rationalization means an effort to eliminate waste and ensure effective distribution within enterprises, rather than an effort in a social viewpoint. In spite of such a limitation, his opinion was an extremely progressive one at that time, i.e., beginning of this century.

(2) Shaw's theory, as it is developed along consumption, demand and market, suggest the very early idea of consumer orientation⁴⁵⁾, which is the basic concept of managerial marketing. A practical expression of such an orientation is market research to know consumer wants, its feedback to product planning and market segmentation. However, in Shaw's time, these modern techniques were relatively unknown and sales activities were basically seller-oriented. It is remarkable that already at such a period, Shaw realized the importance of wants, need for marketing

41) For instance, refer to Masayuki Kamioka, "An Essay on Confirmation of Marketing Functions", *Journal of Osaka College of Economics*, No. 71, Sept, 1969, p. 84, and E.J. McCarthy, *Basic Marketing*, 1960, p. 33.

42) A.W. Shaw, *Some Problems in Market Distribution*, 1915, p. 84. It should be noted that his comment on demand creation is related to dealers rather than to manufacturers.

43) *Ibid.*, p. 43.

44) For details, refer to Isao Hashimoto, *Mercantile Capital and Distribution Problems*, Ed. Minerva Shobo, 1970, p. 80.

45) Consumer-orientation... refer to Yoshihiko Taniguchi, *Theory of Distribution*, new Ed., Chikura Shobo. 1966, p. 389.

research as well as for coordination of consumer wants and production. In this sense, consumer orientation may be said to be seen in his theory, in its embryonic form. Shaw started his argument by discussing consumer wants⁴⁶⁾ and their increasing complexity as history moved on. He pointed out that "unformulated wants of the individual must be ascertained, and the possibility of gratifying them brought to his attention"⁴⁷⁾, which makes market development most important. He further stated that "producers should study the consumer wants and coordinate their production to such wants"⁴⁸⁾, which makes marketing research very important. This also means he was the first to realize importance of product planning. These exceptional viewpoints clearly show that he was standing on producer's side and gives a prototype of consumer orientation.

Shaw analyzed consumer needs and said they originate from "education, character, habits, and economic and social environments"⁴⁹⁾. There are two types of needs, i.e., conscious needs and unformulated subconscious needs. The latter, he felt, was most important, because creation of demand is possible only by discovering those subconscious needs and cultivating market systematically to satisfy these needs⁵⁰⁾. The demand is determined by needs and purchasing power, and the demand can be classified into three types. There are "expressed conscious demands" which readily materializes into purchase in response to advertising, the "unexpressed conscious demand" which plans future purchase in response to advertising, and finally, "subconscious demand" which is enlightened enough to be materialized easily in future efforts to purchase⁵¹⁾. Shaw did not intend mere classification of demand, but tried to give form to his own theory that demand creation by enterprise and should turn subconscious needs into conscious ones, and this would involve the use of tools of market development activities such as advertising. To discover subconscious needs of consumer and to satisfy them was the starting point of market development activities and the collective expression of consumer orientation. Such a thinking can be seen also in his comments on marketing analysis, which—according to Shaw—must be done on regional basis and with regard to various classes of income level⁵²⁾. This

46) He uses the concept of "consumer's surplus" in his analysis of wants. It means "the difference between the market value and the subjective value to individual consumers of a commodity" (viz. A. W. Shaw, *Some Problems*, p. 47.)

47) *Ibid.*, p. 43, also cf. p. 44.

48) *Ibid.*, p. 82, also cf. p. 100.

49) *Ibid.*, p. 100, also cf. p. 44.

50) *Ibid.*, p. 46. The analysis and discovery to produce commodity that satisfies consumers is considered one of the adjustment functions. (*Ibid.*, pp. 46~47.)

51) *Ibid.*, p. 95 f, p. 104. According to Mr. Yasuo Ito, "a given conscious wants which are constantly satisfied by purchasing commodity produced to meet satisfaction of such wants" and "unformed latent wants which individuals cannot express because of their ignorance of commodity that satisfies such want" Y. Ito and H. Mizuno Translation of "Some Problems", *Chuo Shogaku Journal*, Vol. 17, No. 4, p. 106.

52) *Ibid.*, p. 45, p. 100. He refers to sampling as a means of marketing analysis, which is a very sharp opinion as it became first used in 1930's.

can be constructed as the first indication of the concern for market segmentation of today⁵³.

(3) Shaw, on the other hand, defined marketing as a motion of enterprise. For instance, he clearly pointed out that the basic element which is common to various operations of an enterprise is the motion⁵⁴. He was able to classify enterprise activities into those of production, distribution and of administration or of facilitation on the basis of such a basic standpoint. This type of approach to understand marketing as a distribution activity of enterprise was extremely rare prior to the last World War, when socio-economic theory was dominating the vision, and most marketing theories at that time considered marketing as social "institution" or "process". It is only after the war that advent of managerial marketing theory paved the way for general acceptance that marketing are activities of enterprise⁵⁵. The prototype of managerial marketing in Shaw's theory is therefore unusually precocious.

(4) The fourth point to be stressed is the fact that Shaw's theory includes embryo of functional viewpoint which is one of the characteristics of managerial marketing theory. As already mentioned, he distinguished production, distribution and administration activities, and classified distribution activities into creation of demand and supply of goods. Such distinctions are based on the function of those activities, or purpose and function of motions. Such an emphasis on function can also be seen in his theory of function of middleman, a point duly noted by many scholars already. However, Shaw's theory on function has been neglected almost completely as the problems of micro marketing. It was in the post-war managerial marketing theory that such functional approach received attention, as is the case of W. Alderson's functionalism which has been introduced into Japan by Prof. Y. Arakawa⁵⁶. Naturally, Shaw's functional approach does not have a direct bearing upon the post war functionalism. However, he did think that function would determine enterprise's system of activity and organizational structure. Alderson, too, stated that "functions determine structures; not the other way"⁵⁷. Thus, Shaw's theory is not alien to the modern functionalism. This also is a very interesting point.

(5) As the fifth point, Shaw's analysis on business activities contain a little of the total and integrated viewpoint which are one of the characteristics of managerial marketing theory. In the modern marketing theory, marketing should not be fragmental knowledge and compilation of partial techniques, but it should become a total and integral understanding on the viewpoint of enterprises⁵⁸. Shaw's concepts of

53) For details, ref. A. W. Shaw, *An Approach*, p. 219ff.

54) A. W. Shaw, *Some Problems*, p. 5.

55) W. Lazer and E. J. Kelley (eds.), *Managerial Marketing*, 1962, p. 680.

56) Yukichi Arakawa et al. (eds.), *Marketing Management*, Ed. Nippon Keiei Shuppankai, 1967, p. 20.
F. Morishita and Y. Arakawa, *Systematic Marketing Management*, Ed. Chikura Shobo, 1966, p. 54.
Masanori Tamura, *System of Marketing Behavior*, Ed. Chikura Shobo, 1971, p. 14.

57) Wroe Alderson, *Marketing Behavior and Executive Action*, 1957, p. 75.

58) Y. Taniguchi, *op. cit.* p. 386.

“interdependence and balance”, and that of “all-round cooperation”, actually prove that he was aware of such a viewpoint. His division of business activities into three groups and his classification of distribution into demand creation and supply of goods do not mean that these activities exist independently. He thought that two principles —“principle of interdependence”⁵⁹⁾ and “principle of balance”—must work between each type of activities. These principles must exist between departments and within department so long as there is any division of labor, and each department stand in need of the “all round cooperation”⁶⁰⁾, and this Shaw’s idea is relevant to the idea which see “the interaction and interrelation”⁶¹⁾, between marketing and other business activities, and furthermore find its way into the total and integrated viewpoint in postwar managerial marketing. This total and integrated viewpoint is found in the idea of “combination” which is the prototype of mix concept.

(6) The mix concept which is the key concept in prevailing managerial marketing is found in Shaw’s theory, and this should not be overlooked. The concept of mix, as is well known, was first used by N. H. Borden following the Second World War, According to A. R. Oxenfeldt, it means the act of “top management consciously or unconsciously allocate resources among alternative and partially-substitute marketing activities”⁶²⁾⁶³⁾. In other words, it is the optimum mix of various marketing factors such as, prices, advertising, personal selling, product, service, marketing research, development of wholesaler and others.

How such a concept of combination of “resources” or “marketing factors” is represented in Shaw’s work? As we have already seen, the purpose of distribution activities of an enterprise is to create demand, according to his theory. Then how should an enterprise proceed to realize effective demand creation?

Shaw divided the activity of demand creation into plant activities and operation activities. Plant activities, however, become more or less rigid. Fixed once policy decision making are made, and they do not occur daily and repeatedly so long as the policies remain as they are. Therefore, operation activities are more important to an enterprise. According to Shaw, operation activities can be classified into materials, agencies and organizations, as we have seen previously. Of these, agency is further broken down into salesmen, middlemen, and advertising, all of which are “agency” to communicate the idea of commodity. These three types of “agency” are analyzed in greater detail in Shaw’s “An Approach to Business Problems” of 1916. In this book it is maintained that activity of demand creation consist of three types of activity,

59) A. W. Shaw, *Some Problems*, p. 9, p. 11.

60) *Ibid.*, p. 27.

61) W. Lazer and E. J. Kelley (eds.), *Managerial Marketing*, 1962, p. 680.

62) E. J. Kelley and W. Lazer (eds.), *Managerial Marketing*, 1967, p. 120, M. Zober, *Marketing Management*, 1964, p. 78.

63) In addition, P. J. Verdoorn attempt to clear how “input mix to optimize output” (P. J. Verdoorn, *Marketing from the Producer’s Point of View.*, *Journal of Marketing*, Vol. XX, No. 3, Jan. 1956, p. 227.)

namely, "analysis of market", "pricing of commodity", and "combination and coordination of the agencies"⁶⁴, the last of which corresponds to the "agency" referred to in the preceding book ("Some Problems")⁶⁵. In the preceding book, agency was consisting of salesman, middleman and advertising. In "An Approach", the terms he used were "direct salesman", "middleman", and "direct advertising and general advertising". Those three agencies correspond to "resources" or "marketing elements" in the theory of marketing mix.

Furthermore, Shaw clearly indicates his concept of "optimum combination" of these agencies. For instance, in "Some Problems", he wrote: "The business man faces the problem of what agency or what combination of agencies is the most efficient for the demand creation and physical supply of his particular commodity"⁶⁶. In "An Approach", he expresses the same idea as follows: "what agency or group of agencies will be the most effective in creating an adequate demand"⁶⁷. This idea is the very prototype of modern concept of optimum mix in the managerial marketing theory.

With regard to the "combination of agencies", we should see how Shaw's concept corresponds to the present theory of marketing mix, which considers it important characters of each elements and to evaluate their optimum effects in order to determine the optimum mix. Shaw seems to consider that of all agencies, combination of salesman and advertising is the most important. This is a very appropriate opinion, applicable even to our day. According to Shaw, both salesman and advertising have in common the purpose of carrying out sales functions of a manufacturer and of demand creation. Those two agencies are combined in order to accomplish a common purpose, and what is important here is their difference and character as the two are combined. According to Shaw, the salesman and advertising are different from one another in the following respects:

Firstly, a salesman has human elements, whereas advertising is non-personal or institutional⁶⁸.

Secondly, a salesman can arouse the demand of product, taking the order, and accomplish sales at the same time. Advertising, on the contrary, cannot get orders even though it arouse the demand.

Thirdly, advertising, by selecting the media, is capable of communicating the desired idea in a desirable method to a wide range of audience, but salesman cannot choose a form suited to the idea, and the range of audience he could reach to communicate the idea is very limited indeed.

Lastly, advertising does not have personality nor opportunity to call prospective customers at a suitable time. Nor it can take advantage of customer's needs or other

64) Shaw, *An Approach*. p. 219.

65) *Ibid.*, p. 219.

66) Shaw, *Some Problems*. p. 67.

67) Shaw, *An Approach*. p. 219.

68) Shaw, *Some Problems*. p. 89.

their human elements⁶⁹⁾.

Shaw, therefore, considers it necessary to combine these two agencies for effective demand creation⁷⁰⁾. Such a combination is a difficult problem also in today's managerial marketing theory, but Shaw seems to recognize the need to take into consideration such factors as geographical section, economic and social strata, cost expense, etc.⁷¹⁾ For instance, when marketing area is large and consumers can only be reached at a great distance, advertising can do much better than salesmen. Density of population is another key factor. Use of salesmen is advantageous in a densely populated area, but traditional distribution structure should be utilized if there is no concentration of population. From a time standpoint, use of salesman is desirable from a short-term point of view, while advertising generates more effect as time goes on⁷²⁾. From the viewpoint of selling expense, it is more advantageous to use a middleman rather than a salesman⁷³⁾. Such arguments are mentioned partially with historical explanation, but it is sometimes not clear. But they are quite interesting because there are comparative analysis of agencies to make more effective combinations. Shaw's theory is a preeminent precursor of the managerial marketing theory of the sixties.

With reference to Shaw's thinking on the agencies for demand creation, they include middleman, market analysis and pricing policy, but he did not pursue further to seek the optimum mix of these agencies. Although he made some comparative analysis of middleman, it concerns mostly their functions and historical trends⁷⁴⁾. As for the market analysis, Shaw considers it important as a means to arrive at the most economical combination of agencies. According to Shaw, it is a tool to find out where to sell the commodity, and how much it will be possible to sell...in short, discover the prospective customers⁷⁵⁾. With regard to the pricing policy, he pointed out that it should give the first priority to the needs in market, rather than to cost of production. This is a very important opinion of historical significance, in that it suggests revolution of pricing policy from production oriented one to market-oriented one, although as an analysis of agency mix, it leaves many things yet to be desired, perhaps because of the premises of pricing, analysis and middleman.

Thus, we have considered in detail Shaw's theory as the formation of micro marketing theory. Perhaps the analysis places too much emphasis on the positive side of his arguments. However, it may be concluded tentatively that Shaw's work contains the prototype of managerial marketing theory which represent the modern marketing theory.

69) *Ibid.*, p. 89.

70) Shaw, *An Approach*. p. 255ff.

71) *Ibid.*, p. 257.

72) Shaw, *Some Problems*. p. 102.

73) *Ibid.*, p. 98.

74) *Ibid.*, p. 76ff.

75) Shaw, *An Approach*. p. 219ff.

IV Theory of Monopoly

Now, we shall see whether or not Shaw's theory is merely the one on behavior of enterprises but the one representing the theory on behavior of monopoly capital, and if so, in which respect.

In order to prove that micro marketing is the theory on behavior of monopoly capital, it will be necessary to see first if Shaw's theory represents producer's standpoint, i.e., marketing for industrial capital, rather than that for commercial capital⁷⁶⁾.

(1) First of all, we remember that Shaw's classification of activities of enterprise comprises production, distribution and administration, which effectively relates to industry. Secondly, he pointed out the need to coordinate consumer wants and production by means of market analysis⁷⁷⁾. Lastly, his understanding of marketing as activities of demand creation becomes meaningful only if the subject of activities is a producer.

We notice that Shaw's first work, "Some Problems in Market Distribution", was primarily concerned with socio-economic marketing problems (Chapter 2 to 4), but in the following book, "An Approach to Business Problems", his concept of producer's marketing become much clearer. Our problem, therefore, is to see how his theory represents the viewpoint of marketing of monopoly capital.

In this respect, we consider it significant that Shaw himself used the terms of "the larger concerns" and "the small or medium-sized business⁷⁸⁾" to express their distinction. He stated, furthermore, that in analyzing activities of enterprises, the management of small or medium-sized business must supervise production and sales organization directly, while in large concerns, these two organizations can be supervised separately.

(2) Secondly, in analyzing pricing policy, he is quite close to the concept of monopoly price, i.e., prices maintained at a level higher than price of production by means of market control over the distribution process⁷⁹⁾. Shaw recognized the following types of pricing⁸⁰⁾:

Selling at market minus

Selling at the market

Selling at the market plus

He attached a particular importance to the third case, which is "the most character-

76) Shaw called "merchant producers" the producers who conduct selling activities including active demand creation activities. In that they represent an early form of monopolistic capital, and therefore it is a very important concept. In this regard, ref. Fumio Kondo, Development of Marketing Theory (Univ. of Kyoto, *Economic Journal*, Vol. 99, No. 3, March, 1957) is an interesting analysis of Shaw's theory on the standpoint on anti-monopolistic capital.

77) Shaw, *Some Problems*. p. 82.

78) *Ibid.*, p. 25, p. 29.

79) Isao Hashimoto, *Theory of Modern Commerce*, Ed., Minerva Shobo, 1971, p. 65.

80) Shaw, *Some Problems*. p. 52ff. *An Approach*. p. 236.

istic price policy of modern distribution"⁸¹⁾. It should be noted, in this respect, that although Shaw recognizes that price must be based on cost of production, he conducts his arguments entirely from a market standpoint⁸²⁾. In other words, in view of the market competition, he distinguished prices into those below the market price, those at the market price, and those in excess of that price. Such a concept has in common with the modern theory of monopoly price which, as an exploitation in distribution process, is ruled by market. On the other hand, "selling at the market plus" is similar to monopolistic price which is artificially made higher than that market price. Such manipulation of price makes exploitation possible in the distribution process, leading to greater profit which Shaw expressed as "large return to enterprises"⁸³⁾.

How can "selling at the market plus" be made possible? Shaw finds its reason in the differentiation of product⁸⁴⁾, that is to say, improvement of quality and use of brand to differentiate a particular product from the others⁸⁵⁾ which serves to establish differential advantage. It makes it possible to sell that product at more advantageous price above the market price⁸⁶⁾. This is a noteworthy concept, in fact one of the basic conditions for monopolistic price⁸⁷⁾.

As was already referred to, Shaw's theory on pricing policy has a number of theoretical limitations. He was aware of market share, but did not recognize the fact that market share and concentration of capital and production are the bases of monopolistic price. Nor he recognizes the problem of resale price maintenance policy as a means of maintaining the market-plus prices in distribution process. Nevertheless, his theory that prices can be determined by enterprises itself is one of the earliest concept of administered price⁸⁸⁾.

(3) Thirdly, with regard to the analysis of distribution channel, Shaw was aware of value realized by producers, i.e., through direct distribution, that is, elimination of middleman, rather than by merchants. Producers have two means of direct distribution; through producer's salesman, and through utilization of branch stores⁸⁹⁾. As they succeed in creating conscious demand "by the direct communication of

81) *Ibid.*, p. 57. M. Miura, "Origin and Development of Marketing Theory", *Shogaku Ronkyu*, Vol. 23, p. 43.

82) Shaw, *An Approach*. p. 235.

83) *Ibid.*, p. xxii, p. 248.

84) Shaw, *Some Problems*. p. 51, p. 56.

85) *Ibid.*, p. 58.

86) Mr. Fumio Kondo considers selling at the market plus as a means of utilizing consumer surplus (based on his subjective wants) along with product differentiation. This is a very remarkable idea leading to subjective value theory as a defender of monopolistic price (*op. cit.*, p. 69).

87) Shaw attached importance to the policy of different price levels aimed at psychological effect. He pointed out that higher prices had more appeal to consumers, and argued that prices should be determined by testing actually effective demands that could be generated by each different price level (*ibid.*, p. 51, p. 117.) Shaw, however, did not go further in resale price maintenance policy.

88) For Shaw's theory on pricing and differentiation, ref. F. Kondo, *op. cit.*, p. 69.

89) Shaw, *Some Problems*. p. 86.

ideas about the goods by the producer to the consumer⁹⁰⁾, middleman's function is gradually lost in favor of direct distribution⁹¹⁾.

Then, what advantages can a producer expect by the direct distribution? According to Shaw, there are five advantages. First, he can always make use of those personnel specially trained to handle his products. Second, he can contract retail seller directly. Third, sorting of goods can be made more wide and effective if wholesaler is eliminated. Fourth, failure in credit can be minimized. And lastly, it is more convenient for policy enforcement and price control⁹²⁾. This clearly shows he stand the producer's side. As direct distribution eliminate middleman, it shortenes the "distribution cycle"⁹³⁾ and realizes prompt and large-scale sales in favor of producers. He further contends optimistically that direct distribution benefits consumers, because "direct distribution better coordination of production and consumer needs"⁹⁴⁾.

With respect to direct selling by producer's salesman⁹⁵⁾, Shaw argued that his first function is the "communication of ideas about the goods to the prospective purchaser"⁹⁶⁾. Consequently, he is the important means of demand creation. A salesman should be used "when the producer finds it desirable to go around a middleman and to sell directly to a subsequent middleman or to the consumer"⁹⁷⁾. However, the producer must know which of salesman and advertising is more effective as the means of demand creation. Salesman's advantages are as follows. First of all, advertising does not have personality nor it can make a call at a suitable time. Secondly, advertising cannot take advantage of customer's mental attitude nor his human feeling⁹⁸⁾. Third, it cannot take orders instantly if the demand aroused. Thus, salesman has much superior characteristics compared with advertising, and he should be more important as the agency of demand creation. This theory can be regarded as the one aiming at effective mix of marketing means which are characteristics of monopolistic industrial capital⁹⁹⁾.

(4) The fourth point the author should like to make is that Shaw actually recognized existence of non-price competition which is the main form of competition between monopoly capitals, who are bound by price cartels to avoid "ruinous" price competition between themselves and to compete in other fields such as personal

90) *Ibid.*, p. 84.

91) Shaw discussed on shoe industry, clothing, silverwares etc. (*ibid.*, p. 19, p. 86.)

92) *Ibid.*, p. 87.

93) *Ibid.*, p. 19.

94) *Ibid.*, p. 82.

95) Shaw mentioned, in addition, mail-order route and exclusive branch. (*ibid.*, p. 19.)

96) *Ibid.*, p. 88.

97) *Ibid.*, p. 88.

98) *Ibid.*, p. 89.

99) Although elimination of middleman is discussed here in connection with direct sales by monopolistic capital, this should be considered normally as a part of socio-economic distribution theory, K. Fukuda and S. Takebayashi (prewar years), F. Kondo, Y. Ito and many others contributed to this problem. (Ref. F. Kondo, *op. cit.*, p. 70). For elimination of middleman and Shaw's theory, ref. I. Hashimoto, *op. cit.*, p. 104.

selling, advertising, service, quality, channel¹⁰⁰⁾ and the rest of marketing instruments. We have already seen that branch store sales and personal selling are the means of market competition, along with the differentiation of products which aims at quality competitions realize selling at the market plus, or monopolistic price¹⁰¹⁾. Advertising also exists on the same ground¹⁰²⁾. Shaw noted the significance of "differentiation of commodity" which includes, along with that of quality, differentiation by trade marks and brands¹⁰³⁾. This differentiation by trade marks is the most important tool of producers' advertising activities. Shaw's theory suggests he understood the process of substantial product differentiation in content leading to formal differentiation in face and eventually to that by product image¹⁰⁴⁾.

It is also apparent that he knew of the idea on market segmentation. He wrote, for instance, that "the more highly differentiated the scale of commodities is, the more accurately will it be possible for the individual consumer to satisfy his varied material wants"¹⁰⁵⁾. This can be interpreted as an idea leading to diversification of product lines and market segmentation.

That Shaw actually recognized non-price competition and some of the means of marketing competition is not surprising in view of the cartel and other concentration movement of business in the end of the last century. There was full socio-economic basis for his theory to be developed, although it does not alter the fact that after all, Shaw's theory were truly outstanding in the early part of 20th century.

(5) Lastly, it is very interesting that Shaw said an enterprise must pay attention to public opinion, that "public opinion is a primary force" but it would be difficult for him to understand it. Probably he had in mind various criticisms against the evil of monopoly which had began to attract opinion from the end of the last century, and the Sherman Anti-Trust Act of 1890 which was introduced under these circumstances. He thought public opinion important to the monopoly capital and its future well-being.

Thus, we have seen, however sketchily, that Shaw's theory was an effective explanation of behavior of producers and especially that of the monopolist capital in spite of the fact that the dealer-oriented socio-economic marketing theory prevailed in general¹⁰⁶⁾. At the same time, however, most of his thoughts are embryonic from the micro marketing viewpoint, which is quite natural in considering the historical character of his epoch.

100) I. Hashimoto, *op. cit.*, p. 83.

101) Shaw, *Some Problems*. p. 58.

102) *Ibid.*, p. 82.

103) *Ibid.*, p. 59.

104) For appraisal from product differentiation standpoint, ref. I. Kataoka et al., *Modern Marketing*, Dobunkan, 1963, p. 95.

105) Shaw, *Some Problems*. pp. 61~62.

106) In the beginning of 20th century, the monopoly capital or industrial capital was constituted by tobacco, cash register, food processing and shoemaking, all of which are consumer-oriented. (Ref. F. Kondo, *op. cit.*, p. 74).

V Conclusion

The following represents the summary of author's reasons to consider that Shaw's work can be said to show prototype of micro marketing theory.

1. Shaw defined marketing essentially as demand creation.
2. His theory indicates an early idea of consumer orientation.
3. He understood marketing not as "institution" or "process", but as business activities or motion.
4. Shaw's theory provides the functional viewpoint of managerial marketing theory in its embryonic form.
5. His understanding of total and integrated viewpoint is found in his theory, which is a viewpoint of the managerial marketing theory.
6. The concept of mix, key concept of the managerial marketing, can also be seen.

As regards the meaning of Shaw's theory as it applies to the behavior of monopolistic capital in substance, it would be possible to present the following summary.

1. Shaw used the term "larger concerns" and "small and medium-sized business" to show their difference.
2. In his analysis of pricing policy, he used the term "selling at the market plus" to mean, in substance, the monopolistic price.
3. He attached importance in his channel analysis to direct distribution by producer as monopolistic capital and elimination of middleman.
4. He also recognized non-price competition, one of the main modes of competition between monopoly capital.
5. He was conscious of the need to pay attention to public opinion in order to respond effectively to the criticism directed at evils of monopoly.

Thus, we can conclude that Shaw not only depicted the starting points of modern micro marketing theory but recognized also the marketing technique as a tool of marketing control for the monopoly capital, although his theory has many limitations and is far from full development. With such reserve, it is clear that his theory provided the tool of monopolistic control of market, as of the second decade of this century. He was able to furnish practical technique for the monopoly, based on its early form of monopolist ideology. However, it should be said at the same time that his vision of capitalism and marketing was extremely optimistic. This is Shaw's main limit as a theoretician in the beginning of our century who inevitably fails to experience the deepening of crisis of monopolistic economic structure, along with the lack of theoretical maturity of his marketing concepts.

Shaw built up the prototype, structure of micro marketing in its frame of reference in theory. However, each of the individual marketing techniques—such as salesmanship, advertising, sales management and others—became separated from his frame of reference to develop later in the current status.

(This essay was included into "The Formation of Marketing", by Isao Hashimoto, Minerva Shobo, Ed., 1975)